

FOR RELEASE: September 9, 1999

NY Fed move called "risky" *Hearings needed to address 'troubling questions'*

WASHINGTON, DC -- Wednesday's announcement by the Federal Reserve Bank of New York that it will expand the collateral accepted in repurchase transactions to include pass-through mortgage securities of GNMA, FHLMC and FNMA, STRIP securities of the U.S. Treasury and "stripped" securities of other government agencies raises troubling questions, US Rep. Ron Paul (R, Texas) said. "I have contacted the office of Rep. Spencer Bachus, the chairman of the Subcommittee on Domestic and International Monetary Policy of the House Committee on Banking and Financial Services, to call for hearings on this important question," said Rep. Paul, vice-chairman of the subcommittee. "Hopefully, hearings would put to rest serious questions raised by this announcement." Paul said the decision -- which the Federal Reserve said was made because of "century date change" concerns -- sets a risky precedent, especially in light of Deputy Secretary of the Treasury Stuart Eizenstat's earlier suggestion to monetize not only government sponsored enterprises' (GSE) debt but corporate debt as well. Paul added, "I commend Rep. Richard Baker's call for greater oversight of the GSE's and to eliminate their line of credit to the Treasury." Baker is the chairman of the Subcommittee on Capitol Markets, Securities, and Government Sponsored Enterprises of the House Banking Committee. "This decision, though approved only through April 2000, bolsters the value of the implied government guarantee -- this action is highly risky when viewed from the perspective of potential taxpayer liability. These highly-leveraged institutions are already leveraged off the Treasury balance sheet. A further expansion of collateral with mortgage securities, which the Fed can use as collateral for monetary expansion, must be closely scrutinized."